Massive crypto hack highlights need for custody solutions

By **Brian Patrick Eha**
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Coincheck, a Japanese digital-asset exchange that is one of the nation's largest, lost more than $400 million worth of the cryptocurrency NEM in a theft that may give banks and other large institutions fresh reason to be wary of the asset class.

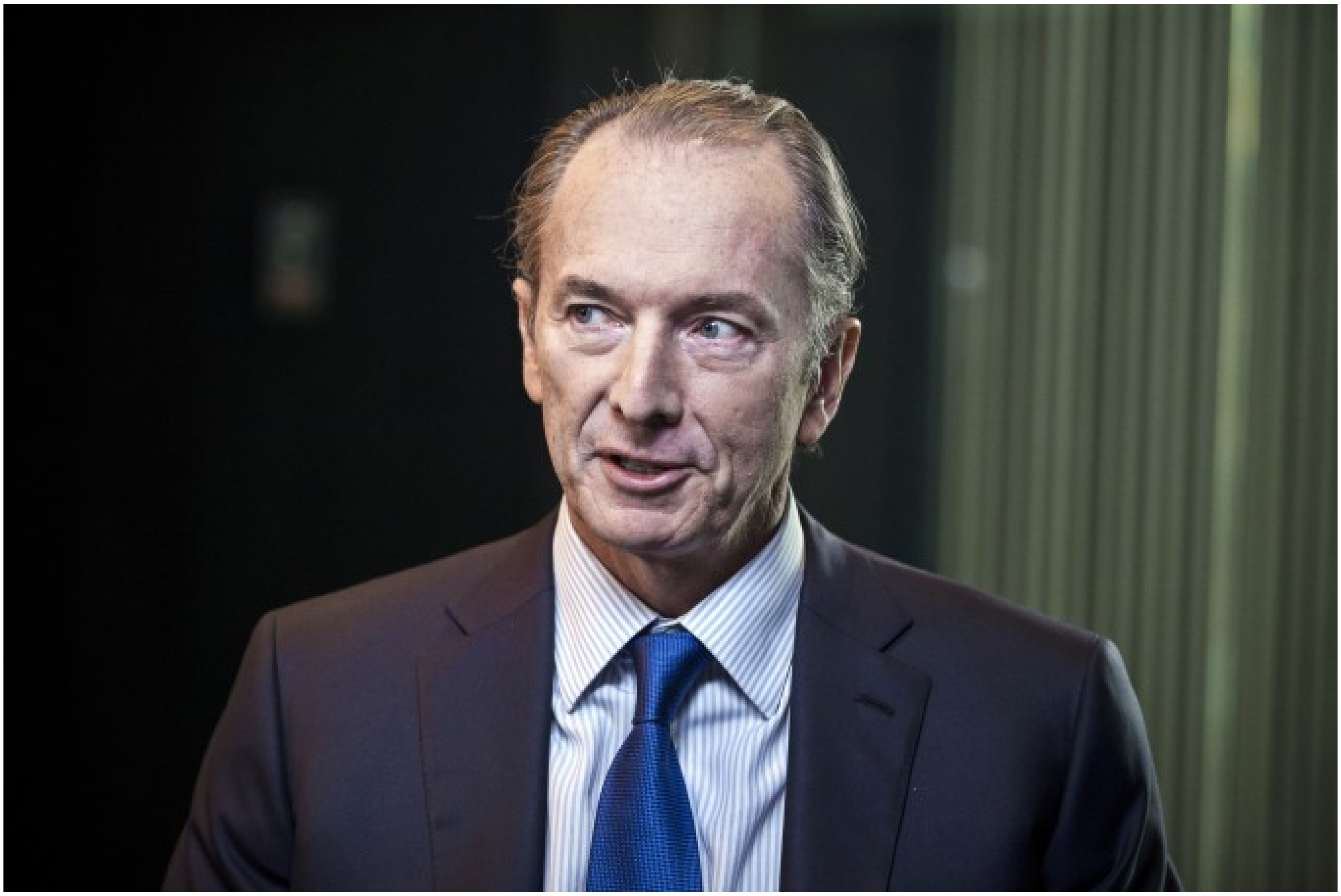
In all, 500 million NEM coins were stolen, according to company officials, who briefed the press during a late-night conference at the Tokyo Stock Exchange. In reaction to the loss, Coincheck froze withdrawals and halted trading in all assets other than bitcoin. It also suspended deposits of NEM.

The prices of major digital assets fell on the news, with NEM hit hardest. The value of the 10th-largest cryptocurrency declined 25%, from just over $1.00 to less than $0.77 at its lowest point. It recovered somewhat after the drop but was still down more than 8% by midday Eastern time.

While the security of NEM itself is not in question, nor is that of any other cryptocurrency, digital exchanges themselves have often proved vulnerable to thefts and cyberattacks.

At a time when regulators around the world are threatening action against digital tokens, it seems unlikely that banks, already gun-shy, will want to partner or invest with exchanges that can't secure their funds.

"Major institutional capital is waiting on the sidelines for institutional rails," said Richie Hecker, chairman and chief economist of Crypto Working Group. "But custody is still a major issue. You need to solve for custody to be able to get those very large asset managers coming in."



"Bitcoin is not going away," said James Gorman, chairman and CEO of Morgan Stanley.
Bloomberg News

Hacks and outages are nothing new in the world of cryptocurrency. And Coincheck officials said the exchange plans to reopen for trading. But in the amount of money involved, if nothing else, the theft harks back to the bad old days.

Japan was also the home of Mt. Gox, the infamous bitcoin exchange that suffered a dramatic meltdown in February 2014 after it was revealed that hundreds of millions of dollars' worth of bitcoin had unaccountably gone missing. The exchange's collapse led to criminal charges against its CEO, a Frenchman named Mark Karpelès, and damaged public perception of digital currencies for months afterward.

Leading digital-currency companies have since gotten serious about security. In November, Coinbase announced that it was launching a new custodial service for hedge funds and other institutions that wanted to invest in crypto-assets. The San Francisco startup, which has raised $216 million from top venture capitalists and financial firms, claimed its research showed that $10 billion of institutional money was waiting to enter the market.

As a technology and an asset class, cryptocurrencies have proven to be remarkably resilient to scandal, and some top financiers have begun to make their peace with bitcoin and its ilk.

"Bitcoin is not going away. It's not a fad," James Gorman, chairman and CEO of Morgan Stanley, said in a Bloomberg television interview in Davos.

He added, however, that the total market capitalization of bitcoin, some $187 billion, was less than double the $103-billion value of Morgan Stanley — an apples-to-oranges comparison that nonetheless highlighted the digital currency's small size relative to traditional finance.

"Bitcoin is punching above its weight," said Gorman. "It's speculative, it's fulfilling a need apparently at the moment, but it's not something which is fundamentally changing the global landscape."

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